

Decision 97-12-038 December 3, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC)
COMPANY U-39-M, (1) to issue, sell and)
deliver one or more series of its First)
and Refunding Mortgage Bonds, debentures,)
promissory notes and/or other)
evidences of indebtedness in connection)
with domestic or Euromarket offerings,)
to guarantee the obligations of others)
in respect of the issuance of securities)
and to arrange for standby letters of)
credit as performance guarantees, the)
total aggregate principal amount of such)
issuances and guarantees not to exceed)
\$750,000,000; (2) to issue shares of its)
Common Stock upon conversion of convertible)
debt securities or the exercise of)
equity warrants; (3) to enter into one)
or more interest rate caps, collars and)
swaps; (4) for an exemption from the)
Competitive Bidding Rule; (5) to provide)
for an "evergreen provision" for)
redemptions, repurchases and maturities)
of debt securities; (6) issue, sell and)
deliver one or more series of its Preferred)
Stock with an aggregate par value)
not exceeding \$250,000,000; and (7) for)
an "evergreen provision" for mandatory)
or optional redemptions or repurchases)
of Preferred Stock.)
_____)

ORIGINAL

Application 93-02-065
(Petition for Modification
filed October 3, 1997)

S U P P L E M E N T A L O P I N I O N

Summary of Decision

This decision grants Pacific Gas and Electric Company (PG&E) the authority requested in its Petition for Modification of Decision (D.) 94-04-084 in Application (A.) 93-02-065 (Petition).

Notice of the filing of the Petition appeared on the Commission's Daily Calendar of October 7, 1997. No protests have been received.

On February 26, 1993, PG&E filed A.93-02-065 requesting, among other things, evergreening authority.¹ D.93-06-082 dated June 23, 1993, granted PG&E limited evergreening authority to issue \$3 billion aggregate principal amount of debt securities through the end of 1993, subject to the limitation that the average life of the total PG&E long-term debt portfolio after the issuance of any debt securities under the evergreen provision had to be within three years of the average life of its portfolio as of the date of the Commission's decision.

By D.93-12-022, dated December 3, 1993, the Commission approved and adopted the "Guidelines for Energy Utilities: Terms and Conditions for Evergreening Authority" (Evergreening Guidelines) set forth as Appendix B to that decision.

Consequently, on February 2, 1994, PG&E filed a Petition for Modification of D.93-06-082 in order to avail itself of the evergreen authorization pursuant to the Evergreening Guidelines approved in D.93-12-022. D.94-04-084 dated April 20, 1994, modified D.93-06-082 and granted PG&E (subject to the terms and conditions set forth in the Evergreening Guidelines) the following:

1. Evergreening authorization for debt securities for an initial term of five years from April 20, 1994, unless suspended or extended by the Commission;

¹ Evergreening provides a utility pre-authorization to issue securities for the purpose of refinancing securities at maturity, upon mandatory redemption, upon repurchase for mandatory sinking fund requirements, or upon optional refinancing to reduce financing costs, without corresponding new issue amounts being charged against Commission authorizations for "new money" securities.

The evergreen authorization has two purposes: to enhance the flexibility with which utilities can refinance existing securities in order to achieve cost savings in a timely manner, and to reduce the administrative costs of the utilities and the Commission in connection with preparing, filing, and reviewing securities applications. Evergreening is not intended to facilitate changes in a utility's capital structure or in the nature of the underlying assets being financed, or to expand the permitted uses of proceeds under the Public Utilities Code.

2. April 20, 1994 as the "base date" for calculations of the average life of PG&E's long-term debt; and
3. Quarterly reporting for total ratemaking capitalization to be the last day of the previous calendar month or, if such information is not yet available on the due date of a quarterly statement, as of the last day of the next preceding calendar month.

In addition, the \$3.0 billion cap for PG&E's evergreen authority under D.93-06-082 was rescinded by D.94-04-084.

Modification Sought

Pursuant to Rule 47 of the Commission's Rules of Practice and Procedure, PG&E seeks modification of D.94-04-084 with respect to two issues:

1. to make the effective date of the Commission's decision on this Petition the "base date" for calculating the average remaining life of PG&E's long-term debt with respect to any evergreen refinancing undertaken by PG&E from now until the expiration of PG&E's evergreening authority.²
2. to extend the current term of PG&E's evergreening authority for a term of five (5) years commencing upon the effective date of the Commission's ruling on this Petition.

² Rule 47(d) of the Commission's Rules of Practice and Procedure provides that if a petition for modification is not filed within one year of the effective date of the decision sought to be modified, the petition must explain why the petition could not have been filed within that one-year period. This Petition is being filed more than one year after April 20, 1994, the effective date of D.94-04-084, because the need for the requested modification was not triggered until the average remaining life of PG&E's long-term debt portfolio decreased by more than three years from PG&E's "base date" average life calculation. This did not occur until June 30, 1997.

PG&E states in the Petition that it has not issued any debt securities since being granted evergreening authorization by the Commission in D.94-04-084. Because the average life of PG&E's long-term debt has decreased by more than three years since then, PG&E will be unable to utilize its remaining evergreening authority unless its "base date" is reset. Also, since the reasons underlying the Commission's granting of evergreening authority to PG&E (as well as the other utilities) remain valid, PG&E requests an evergreening authority for a term of five years commencing upon the effective date of the Commission's ruling on this Petition.

We note that the authority granted by D.94-08-084 will expire on April 20, 1999.

Resetting the Base Date

Guideline (9) of the Evergreening Guidelines provides that a utility must calculate the weighted average remaining life of its long-term debt portfolio as of the effective date of its evergreening authorization.

Each utility shall calculate the weighted average remaining life of all debt with a remaining life greater than 365 days and all non-perpetual preferred on the initial effective date of its evergreen authorization (the "base date" for average life calculations).

Guideline (9) of the Evergreening Guidelines also provides that a utility can engage in evergreening until cumulative evergreen refinancings cause an increase or decrease of more than three years from the utility's "base date" average life calculation.

PG&E states in the Petition that in the time since April 20, 1994, the weighted average remaining life of its long-term debt has decreased by three years, effectively precluding PG&E from utilizing its evergreening authority.

The long-term debt portfolio of PG&E at April 20, 1994 included mortgage bonds, medium-term notes, eurobonds and pollution control bonds totaling \$8,626,385,000 (a minor exclusion was PG&E's

debt obligation to the Department of Water Resources of \$22,810,514, which is an amortizing loan without a maturity date). The average life of PG&E's long-term debt as of April 20, 1994 was 16.48 years. From April 20, 1994 to June 30, 1997, although there have been no issuances of new debt under the evergreen authority, this average life calculation has decreased by more than three years.³ As of June 30, 1997, the weighted average remaining life of PG&E's long-term debt was 13.46 years.

PG&E states in the Petition that the weighted average remaining life calculation of its long-term debt as of April 1994 does not take into consideration the impact of non-evergreening activity on PG&E's long-term debt portfolio. Specifically, debt which has matured or which was redeemed since April 1994 and not replaced with new evergreen financing under the evergreen authorization is still included in PG&E's debt portfolio for purposes of calculating PG&E's weighted average life calculation. Since April 20, 1994, however, PG&E's total debt has been reduced from \$8,626,385,000 to \$7,035,160,000 at June 30, 1997. This decrease includes \$924,715,000 of debt that matured, and an additional \$666,510,000 of debt that was redeemed or repurchased on the open market for sinking fund or other purposes. The weighted average life of the debt which has matured since April 20, 1994 is 0.17 years. If one excludes the matured debt from the weighted average life calculation, the weighted average life of PG&E's debt portfolio would be 16.65 years. The amount of time from April 20, 1994 to June 30, 1997 was 3.19 years. The weighted average life calculation at June 30, 1997 was 13.46 years. By excluding the matured debt it becomes apparent that although the composition of the debt portfolio at April 20, 1994 was the same as that at June 30, 1997, the debt outstanding at June 30, 1997 was 3.19 years closer to maturity than that at April 20, 1994. Thus the major cause of the fall in the weighted average life of PG&E's debt

³ Since April 20, 1994, PG&E's only issuances of new debt, pollution control bonds and Quarterly Income Preferred Securities or QUIPS, were issued to refund either debt or preferred stock and took place outside of the evergreen authority.

portfolio to below the permissible three-year mark was the passage of time (and not any refinancings undertaken by PG&E). PG&E's new issues and redemptions outside the evergreen authority did not have a significant impact on the average remaining life of its long-term debt.

An analysis of the changes to the weighted average life of PG&E's debt portfolio is as follows:

<u>Life</u>	<u>Weighted Average</u>
At 4/20/94	16.48 years
Plus adjustment to portfolio portfolio for matured debt (The exclusion of matured debt debt resulted in debt portfolio portfolio with longer weighted average life.)	.17 years
Sub-total	16.65 years
Less time elapsed 4/20/94 to 6/30/97	3.19 years
At 6/30/97	13.46 years
Change in weighted average average life from base date	3.02 years

PG&E believes that resetting the weighted average life calculation to the effective date of the Commission's ruling on this Petition will incorporate all of PG&E's debt currently outstanding at such time (not just debt outstanding at the time the evergreen authority was granted) and, by bringing PG&E's weighted average life calculation back within the permissible 6-year band, allow PG&E the ability to utilize fully its evergreening authority.⁴

⁴ If the reset date for the weighted average life of PG&E's long-term debt was August 31, 1997, the weighted average life of the debt portfolio as of that date would be 15.94 years (i.e., within 3 years of the 16.48 years weighted average life of debt at April 20, 1994).

The limitation on evergreening in Guideline (9) of the Evergreening Guidelines is intended, among other things, to safeguard against a utility's ability to change dramatically the average life of its long-term debt. See, e.g., D.93-12-022, Appendix B, pp. 7-8. Since PG&E has not issued any debt securities pursuant to its current evergreening authority, the decrease in the average life of PG&E's long-term debt is not attributable to the use of its evergreen authority. The concerns underlying Guideline (9) of the Evergreening Guidelines are not at issue.

Unless the "base date" for PG&E's evergreening authorization is reset, PG&E will be unable to avail itself fully of its existing evergreening authority. PG&E will be unable to issue any debt securities pursuant to its evergreening authority from now until the expiration of its five-year authorization, if the result of such issuance will be any further decrease to the average life calculation. PG&E will also be precluded from issuing any debt securities under its evergreening authority even if such issuance would have no effect on the average life calculation.⁵

Guideline (9) of the Evergreening Guidelines states that "each utility may request that the Commission change the base date for average life calculations and the six-year band; such a request

⁵ It appears that PG&E would currently be permitted to issue debt securities under its evergreening authority only if such issuance were to increase the average life calculation of PG&E's long-term debt back to within three years of the April 20, 1994 "base date" calculation. This is because, pursuant to Guideline (9) of the Evergreening Guidelines, a utility is permitted to engage in evergreen refinancing until the cumulative effect of such refinancings causes an impermissible increase or decrease in the weighted average calculation. In other words, because PG&E has not engaged in any evergreen refinancing, it is technically not yet precluded from doing so, and would not be precluded from doing so if the effect of such refinancing brought the weighted average debt calculation back within the permissible band. This would limit PG&E to evergreen refinancings with maturities of more than 13.46 years. Any debt issued with a maturity of longer than 13.46 years would increase the weighted average life of the debt portfolio at June 30, 1997. Any debt issued with a maturity of less than 13.46 years would decrease the weighted average life of the debt portfolio.

may be included in a subsequent new money financing application or in a petition to modify its evergreen authorization."

We have reviewed PG&E's request and have determined that it is for proper purposes and is not contrary to the terms and conditions for evergreening authority. The Commission's Evergreening Guidelines will ensure appropriate oversight of PG&E's financing, while at the same time providing it flexibility to capture cost savings from the timely refinancing of securities and reduce administrative costs.

Extending the Term of PG&E's Evergreening Authority

As stated earlier, PG&E has not engaged in any evergreen refinancings since being granted its current 5-year evergreening authority. The ability to engage in evergreen refinancings will provide PG&E with greater timing flexibility to take advantage of low interest rates and market opportunities to refinance existing debt as well as to issue new debt securities when maturities occur.

PG&E anticipates that this flexibility would result in ratepayer savings through lower interest costs. Secondly, without the availability of evergreen refinancing authority, PG&E's new financings would utilize new debt authority or require the filing of new debt applications. Another benefit of the evergreening authority is the reduction of the administrative costs to the utilities and the Commission in connection with preparing, filing and reviewing such applications. See Guideline (2) of the Evergreening Guidelines (D.93-12-022, Appendix B.p.1).

Guideline (4) of the Evergreening Guidelines states that any evergreen authorization shall have an initial term of no more than five years, unless suspended or extended by the Commission. This sunset provision will permit the Commission and interested parties to re-evaluate the usefulness of the evergreen concept, and to enlarge or limit a specific authorization as experience may suggest. Absent PG&E's use of its evergreening authority, the Commission does not have actual evergreening information at this time to make a re-evaluation.

However, we will consider PG&E's request for extension of time of its evergreening authority in order to facilitate

compilation of significant data which may be used for future review of the usefulness of the evergreen concept (true to the intent of the Evergreening Guideline's 5-year sunset provision.)

PG&E's request for an evergreening term of five years commencing upon the effective date of the Commission's ruling on this Petition (effectively an extension of approximately 2 years and 7 months) is reasonable and is not contrary to the terms and conditions for evergreening authority.

We approve PG&E's Petition in this order.

Findings of Fact

1. PG&E's request for modification of the "base date" for purposes of calculating the average life of PG&E's long-term debt and for an extension of its evergreening term as contemplated in the Petition is for proper purposes and is not adverse to the public interest.

2. PG&E's Petition falls within the purview of the Evergreening Guidelines approved by the Commission in D.93-12-022.

3. PG&E may have a window of opportunity to refinance and retire its existing debt and achieve thereby significant interest savings that would ultimately benefit its ratepayers through a lower cost of capital.

4. Guideline (9) of the Evergreening Guidelines states that each utility may request that the Commission change the base date for average life calculations and the six-year band; such a request may be included in a subsequent "new money" financing application or in a petition to modify its evergreen authorization.

5. Guideline (4) of the Evergreening Guidelines states that any evergreen authorization shall have an initial term of no more than five years, unless suspended or extended by the Commission.

6. Notice of the filing of the Petition appeared on the Commission's Daily Calendar of October 7, 1997, and no protests were filed. There is no known opposition to the Petition and there is no reason to delay granting the authority described therein.

Conclusions of Law

1. A public hearing is not necessary.
2. The Petition should be granted to the extent set forth in the supplemental order that follows.
3. The following supplemental order should be effective on the date of signature.

S U P P L E M E N T A L O R D E R

IT IS ORDERED that:

1. The authority granted to Pacific Gas and Electric Company (PG&E) by Decision (D.) 94-04-084 in Application (A.) 93-02-065 is modified:

- a. to use the effective date of this order as the "base date" for purposes of calculating the average life of PG&E's long-term debt pursuant to Guideline (9) of the "Guidelines for Energy Utilities: Terms and Conditions for Evergreening Authority" (Evergreening Guidelines).
- b. to extend the evergreening term for a period of 5 years from the effective date of this order, unless suspended or further extended by the Commission.

2. PG&E's petition for modification is granted as set forth above.

3. In all other respects, Decision (D.) 93-06-082, as modified by D.94-04-084, remains in full force and effect.

This supplemental order is effective today.

Dated December 3, 1997, at San Francisco, California.

P. GREGORY CONLON

President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners